



## **FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**



**HINTONBURDICK**  
**HINTON BURDICK HALL & SPILKER PLLC**  
**CPAs & ADVISORS**

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**FINANCIAL SECTION**



# HINTON BURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## Independent Auditors' Report

The Honorable Mayor and  
Members of the City Council  
Kanab, Utah

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
PHILLIP S. PEINE  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Kanab City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Kanab City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006, on our consideration of Kanab City's internal control structure over financial reporting and on our tests of its compliance with laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Kanab City, Utah. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Hinton Burdick, Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
November 21, 2006

## **KANAB CITY, UTAH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Kanab (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Total net assets increased by \$969,271 which resulted in total assets in excess of total liabilities (net assets) of \$12.75 million at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$813,363.
- Total business-type revenues exceeded total business-type expenses by \$155,908.
- Total revenues from all sources were \$4.2 million.
- The total cost of all City programs was \$3.27 million
- The General Fund reported excess revenues over expenditures of \$221,345.
- Actual resources received in the General Fund were less than the final budget by \$372,354 while actual expenditures were \$1,122,307 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,389,848 or 48% of total General Fund expenditures, excluding transfers.
- Total reserved fund balance in the Recreation fund at the close of the year is \$489,124.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

#### **Reporting the City as a Whole**

##### **The Statement of Net Assets and the Statement of Activities (Government-wide)**

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, judicial, public works, culture and recreation, community support and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers to cover all of most of the cost of the services provided.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

#### **Reporting the City's Fiduciary Responsibilities**

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, donations for a specific purpose and others. These fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$12.75 million as of June 30, 2006 as shown in the following condensed statement of net assets. The City has chosen to account for its water, sewer and electric operations in enterprise funds which are shown as Business Activities.

### Kanab City Statement of Net Assets

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Current and other assets	\$ 2,628,521	\$ 2,339,514	\$ 2,082,136	\$ 2,069,279
Capital assets	5,873,229	5,128,827	4,050,588	4,088,991
Total assets	8,501,750	7,468,341	6,132,724	6,158,270
Long-term liabilities outstanding	696,966	463,622	1,025,321	1,168,366
Other liabilities	111,473	124,768	50,330	88,739
Total liabilities	808,439	588,390	1,075,651	1,257,105
Net assets:				
Invested in capital assets, net of related debt	5,187,175	4,683,082	3,363,647	3,151,954
Restricted	923,653	1,048,957	137,586	128,094
Unrestricted	1,582,483	1,147,912	1,555,840	1,621,117
Total net assets	\$ 7,693,311	\$ 6,879,951	\$ 5,057,073	\$ 4,901,165

### Governmental Activities

The cost of all Governmental activities this year was \$2,362,096. As shown on the statement of Changes in Net Assets on the following page, \$553,447 of this cost was paid for by those who directly benefited from the programs, \$917,132 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,470,579. General taxes and investment earnings totaled \$1,714,224.

The City's programs include: General Government, Public Safety, Public Works, Parks & Recreation and Community Development. Each programs' revenues and expenses are presented below.



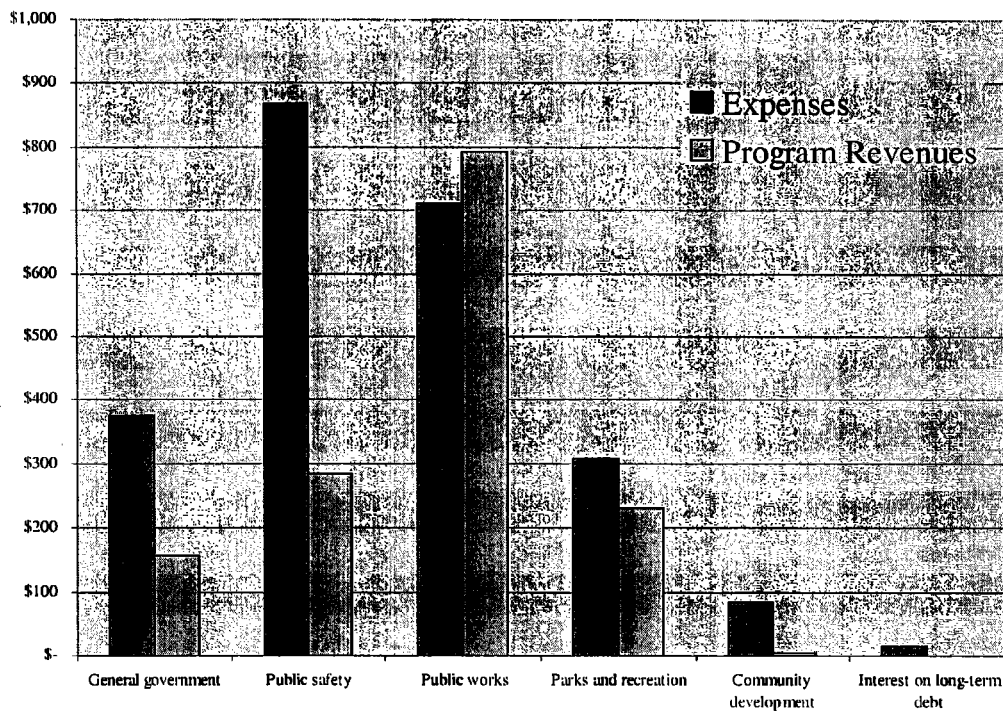
**Kanab City  
Changes in Net Assets**

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Revenues:				
Program revenues:				
Charges for services	\$ 553,447	\$ 386,158	\$ 946,236	\$ 1,427,657
Operating grants and contributions	270,831	202,526	-	-
Capital grants and contributions	646,301	343,100	29,395	-
General revenues:				
Taxes	1,573,480	1,394,077	-	-
Impact fees	71,412	51,612	-	-
Grants and contributions not restricted to specific programs	-	-	-	-
Other	69,332	33,904	78,731	573,720
Total revenues	<u>3,184,803</u>	<u>2,411,377</u>	<u>1,054,362</u>	<u>2,001,377</u>
Expenses:				
General government	375,036	366,991	-	-
Public safety	867,505	741,038	-	-
Public works	710,690	526,163	-	-
Parks and recreation	308,695	314,663	-	-
Community development	84,327	58,164	-	-
Interest on long-term debt	15,843	9,034	-	-
Water & Sewer	-	-	907,798	803,350
Electric	-	-	-	641,056
Total expenses	<u>2,362,096</u>	<u>2,016,053</u>	<u>907,798</u>	<u>1,444,406</u>
(Decrease)/Increase in net assets				
before transfers	822,707	395,324	146,564	556,971
Transfers	<u>(9,344)</u>	<u>622,431</u>	<u>9,344</u>	<u>(622,431)</u>
(Decrease)/Increase in net assets	813,363	1,017,755	155,908	(65,460)
Net assets, beginning	6,879,948	5,862,196	4,901,165	4,882,800
Prior period adjustment	-	-	-	83,825
Net assets, ending	<u>\$ 7,693,311</u>	<u>\$ 6,879,951</u>	<u>\$ 5,057,073</u>	<u>\$ 4,901,165</u>

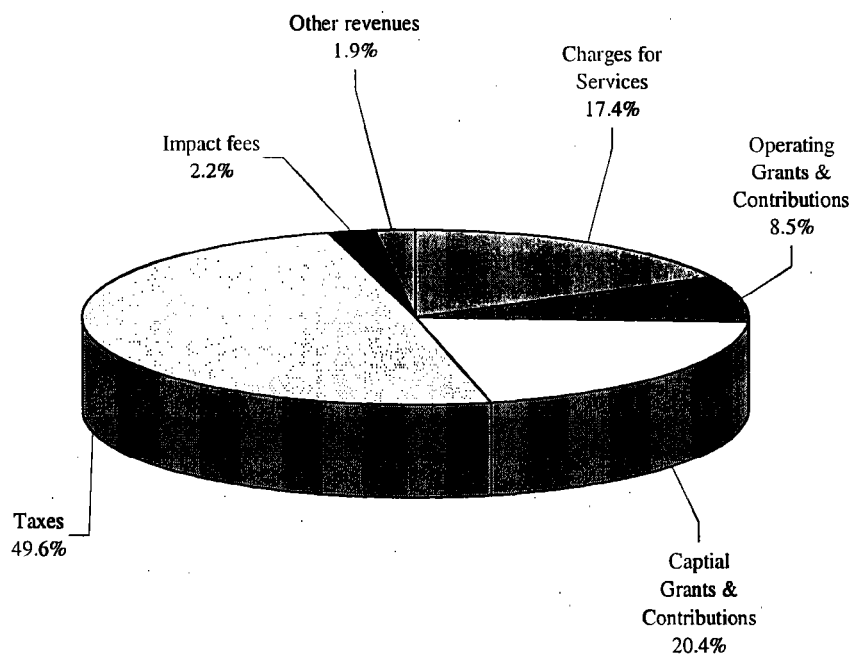
Total resources available during the year to finance governmental operations were \$10.06 million consisting of Net assets at July 1, 2005 of \$6.88 million, program revenues of \$1.47 million and General Revenues of \$1.71 million. Total Governmental Activities during the year were \$2.35 million; thus Governmental Net Assets were increased by \$813,365 million to \$7.69 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

**Expenses and Program Revenues - Governmental Activities**  
(in Thousands)



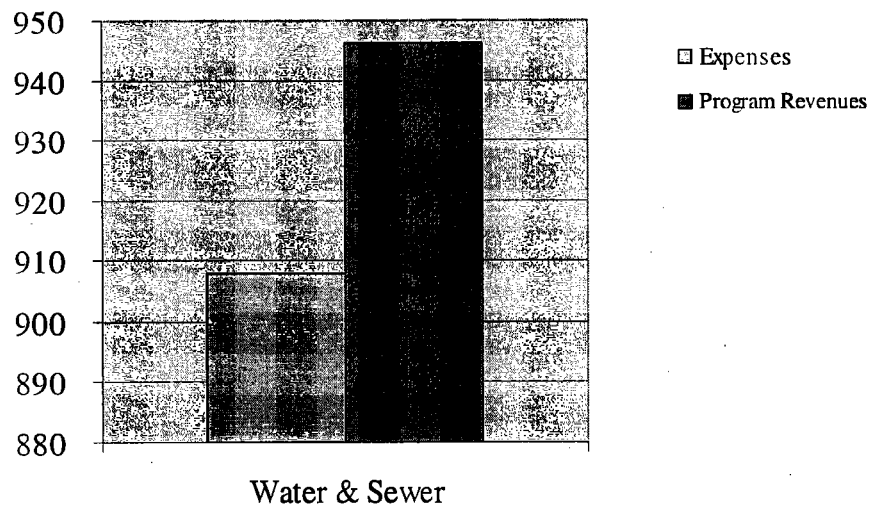
**Revenue By Source - Governmental Activities**



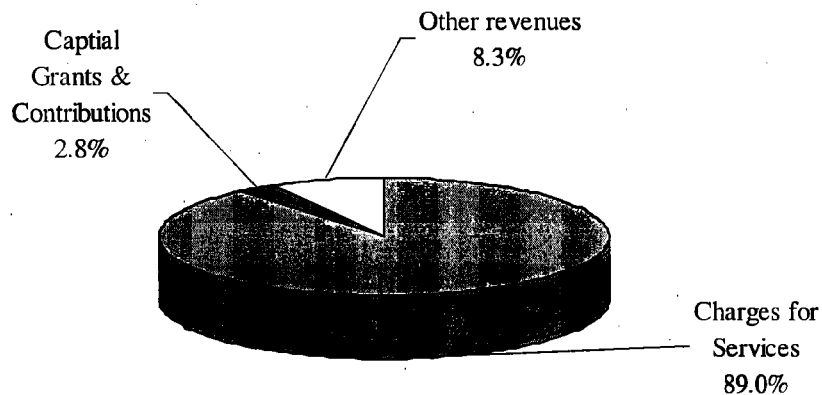
## Business Type Activities

Net assets of the Business Type activities at June 30, 2006, as reflected in the Statement of Net Assets were \$5.06 million. The cost of providing all Proprietary (Business Type) activities this year was \$907,798. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$946,236 with \$29,395 subsidized by capital grants and contributions. Interest earnings were \$78,731. The Net Assets increased by \$155,908.

**Expenses and Program Revenues - Business-type Activities**  
(in Thousands)



**Revenue By Source - Business-type Activities**



## **General Fund Budgetary Highlights**

The final appropriations for the General Fund at year-end were \$1,122,307 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures by the Public Works department for road and other projects which carried over to the next fiscal year. Actual revenues were less than the final budget by \$372,354. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2006, net capital assets of the government activities totaled \$5.9 million and the net capital assets of the business-type activities totaled \$4.1 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

### **Debt**

At year-end, the City had \$696,966 in governmental type debt, and \$1 million in proprietary debt. The debt is a liability of the government and amounts to \$498.59 per capita. During the current fiscal year, the City's total debt increased by \$94,774 net of additions of \$250,000. (See note 7 to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the City Budget for fiscal year 2006/2007, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2005/2006.

On August 22, 2006 the City approved a new impact fee schedule. A copy of the schedule can be obtained from the City offices.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Kanab, 76 North Main, 84741.

## **BASIC FINANCIAL STATEMENTS**

**KANAB CITY, UTAH**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,377,788	\$ 1,509,799	\$ 2,887,587
Receivables (net of allowance)	107,089	123,384	230,473
Inventory	-	98,926	98,926
Internal balances	-	-	-
Deferred Charges	-	11,647	11,647
Temporarily restricted assets:			
Cash and cash equivalents	1,143,644	338,380	1,482,024
Capital assets (net of accumulated depreciation):			
Land	170,500	162,236	332,736
Buildings	926,397	256,352	1,182,749
Improvements	2,500,240	-	2,500,240
Golf course	799,296	-	799,296
Machinery & equipment	182,382	198,832	381,214
Library books	21,151	-	21,151
Automobiles and trucks	71,401	54,755	126,156
Swimming pool	7,702	-	7,702
Distribution system	-	3,378,413	3,378,413
Infrastructure	989,509	-	989,509
Construction in progress	204,651	-	204,651
Total assets	<u>8,501,750</u>	<u>6,132,724</u>	<u>14,634,474</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	80,677	38,944	119,621
Deferred revenue	20,745	-	20,745
Interest payable	10,051	11,386	21,437
Noncurrent liabilities:			
Due within one year	45,421	117,552	162,973
Due in more than one year	651,545	907,769	1,559,314
Total liabilities	<u>808,439</u>	<u>1,075,651</u>	<u>1,884,090</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,187,175	3,363,647	8,550,822
Restricted for:			
Debt service	(4,939)	137,586	132,647
Capital projects	707,228	-	707,228
Perpetual care	214,315	-	214,315
Other purposes	7,049	-	7,049
Unrestricted	1,582,483	1,555,840	3,138,323
Total Net Assets	<u>\$ 7,693,311</u>	<u>\$ 5,057,073</u>	<u>\$ 12,750,384</u>

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 375,036	\$ 157,771	\$ -	\$ -	(217,265)	\$ -	(217,265)
Public safety	867,505	259,276	25,537	-	(582,692)	-	(582,692)
Public works	710,690	105,831	198,219	488,546	81,906	-	81,906
Parks and recreation	308,695	30,444	42,083	157,755	(78,413)	-	(78,413)
Community development	84,327	125	4,992	-	(79,210)	-	(79,210)
Interest on long-term debt	15,843	-	-	-	(15,843)	-	(15,843)
Total governmental activities	2,362,096	553,447	270,831	646,301	(891,517)	-	(891,517)
<b>Business-type activities:</b>							
Water & Sewer	907,798	946,236	-	29,395	-	67,833	67,833
Total business-type activities	907,798	946,236	-	29,395	-	67,833	67,833
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes levied for general purposes					381,265	-	381,265
Sales and use taxes					1,109,406	-	1,109,406
Franchise taxes					82,809	-	82,809
Impact fees					71,412	-	71,412
Unrestricted investment earnings					69,332	78,731	148,063
Gain on sale of assets					-	-	-
Transfers					(9,344)	9,344	-
Total general revenues & transfers					1,704,880	88,075	1,792,955
Change in net assets					813,363	155,908	969,271
Net assets - beginning					6,879,948	4,901,165	11,781,113
Net assets - ending					\$ 7,693,311	\$ 5,057,073	\$ 12,750,384

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,349,330	\$ -	\$ 28,458	\$ 1,377,788
Receivables	18,082	-	20,745	38,827
Due from other governments	68,263	-	-	68,263
Due from other funds	-	-	-	-
Restricted cash and cash equivalents	18,971	512,052	612,621	1,143,644
Total assets	<u>\$ 1,454,646</u>	<u>\$ 512,052</u>	<u>\$ 661,824</u>	<u>\$ 2,628,522</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 33,905	\$ 22,928	\$ -	\$ 56,833
Accrued liabilities	23,844	-	-	23,844
Customer deposits	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	20,745	20,745
Total liabilities	<u>57,749</u>	<u>22,928</u>	<u>20,745</u>	<u>101,422</u>
<b>Fund Balances:</b>				
Reserved for:				
Debt service	-	-	5,112	5,112
Capital outlay	-	489,124	218,104	707,228
Perpetual care	-	-	214,315	214,315
Other	7,049	-	-	7,049
Unreserved, reported in:				
General fund	969,358	-	-	969,358
General fund, designated	420,490	-	-	420,490
Debt service fund	-	-	203,548	203,548
Total fund balances	<u>1,396,897</u>	<u>489,124</u>	<u>641,079</u>	<u>2,527,100</u>
Total liabilities and fund balance	<u>\$ 1,454,646</u>	<u>\$ 512,052</u>	<u>\$ 661,824</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

5,873,228

Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.

(707,017)

Net assets of governmental activities

\$ 7,693,311

The accompanying notes are an integral part of the financial statements.



**KANAB CITY, UTAH**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	General	Recreation Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 205,812	\$ 100,246	\$ 24,750	\$ 330,808
Fees in lieu of property taxes	50,457	-	-	50,457
Sales and use taxes	1,109,406	-	-	1,109,406
Franchise taxes	82,809	-	-	82,809
Licenses, permits and fees	275,177	-	-	275,177
Intergovernmental revenue	817,899	-	-	817,899
Sanitation service revenues	7,031	-	-	7,031
Charges for services	-	-	6,600	6,600
Fines and forfeitures	76,404	-	-	76,404
Special assessments	-	-	29,395	29,395
Impact fees	-	-	71,412	71,412
Contributions and donations	223,046	-	-	223,046
Investment earnings	62,246	21,315	20,797	104,358
<b>Total revenues</b>	<u>2,910,287</u>	<u>121,561</u>	<u>152,954</u>	<u>3,184,802</u>
<b>Expenditures</b>				
Current:				
General government	401,122	-	-	401,122
Public safety	836,951	-	-	836,951
Public works	1,221,513	-	-	1,221,513
Parks and recreation	401,679	-	-	401,679
Community development	63,319	-	-	63,319
Debt service:				
Principal	-	-	27,569	27,569
Interest	-	-	13,684	13,684
Capital outlay	-	155,158	-	155,158
<b>Total expenditures</b>	<u>2,924,584</u>	<u>155,158</u>	<u>41,253</u>	<u>3,120,995</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,297)</u>	<u>(33,597)</u>	<u>111,701</u>	<u>63,807</u>
<b>Other Financing Sources (Uses)</b>				
Bond Issuance	250,000	-	-	250,000
Transfers in	6,000	-	11,014	17,014
Transfers out	(20,358)	-	(6,000)	(26,358)
<b>Total other financing sources and uses</b>	<u>235,642</u>	<u>-</u>	<u>5,014</u>	<u>240,656</u>
<b>Net change in fund balances</b>	<u>221,345</u>	<u>(33,597)</u>	<u>116,715</u>	<u>304,463</u>
Fund balances, beginning of year	<u>1,175,552</u>	<u>522,721</u>	<u>524,364</u>	<u>2,222,637</u>
<b>Fund balances, end of year</b>	<u>\$ 1,396,897</u>	<u>\$ 489,124</u>	<u>\$ 641,079</u>	<u>\$ 2,527,100</u>

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2006**

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Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 13)	\$ 304,463
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	744,403
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	27,569
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.	(250,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(13,072)
Change in net assets of governmental activities	<u>\$ 813,363</u>

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 195,000	\$ 175,077	\$ 205,812	\$ 30,735
Fees in lieu of property taxes	70,000	68,000	50,457	(17,543)
Sales and use taxes	950,000	1,049,000	1,109,406	60,406
Franchise taxes	52,000	72,000	82,809	10,809
Licenses, permits and fees	96,000	200,300	275,177	74,877
Intergovernmental revenue	1,172,319	1,374,864	817,899	(556,965)
Sanitation service revenue	7,200	7,200	7,031	(169)
Fines and forfeitures	111,500	111,500	76,404	(35,096)
Contributions and donations	153,000	166,000	223,046	57,046
Investment earnings	32,700	58,700	62,246	3,546
Total revenues	2,839,719	3,282,641	2,910,287	(372,354)
<b>Expenditures</b>				
Current:				
General government	505,685	411,625	401,122	10,503
Public safety	639,385	862,950	836,951	25,999
Public works	1,774,050	2,242,085	1,221,513	1,020,572
Parks and recreation	299,446	458,731	401,679	57,052
Community development	71,500	71,500	63,319	8,181
Total expenditures	3,290,066	4,046,891	2,924,584	1,122,307
Excess (deficiency) of revenues over (under) expenditures	(450,347)	(764,250)	(14,297)	749,953
<b>Other Financing Sources (Uses)</b>				
Bond Issuance	-	250,000	250,000	-
Transfers in	148,400	148,400	6,000	(142,400)
Transfers out	(27,430)	(27,430)	(20,358)	7,072
Total other financing sources and uses	120,970	370,970	235,642	(135,328)
Net change in fund balances	(329,377)	(393,280)	221,345	614,625
Fund balances, beginning of year	1,175,552	1,175,552	1,175,552	-
Fund balances, end of year	\$ 846,175	\$ 782,272	\$ 1,396,897	\$ 614,625

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<u>Water &amp; Sewer Current Year</u>	<u>Water &amp; Sewer Prior Year</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,509,799	\$ 1,629,779
Receivables, net of allowance	123,384	96,711
Inventory	98,926	98,926
Bond discounts and issuance costs, net of accumulated amortization	11,647	12,534
Total current assets	<u>1,743,756</u>	<u>1,837,950</u>
Noncurrent assets:		
Restricted cash and cash equivalents	338,380	231,329
Capital assets:		
Land	162,236	162,236
Buildings	333,501	333,501
Machinery & equipment	428,511	375,302
Automobiles and trucks	172,756	186,628
Distribution system	6,581,831	6,459,870
Construction in progress	-	89,780
Less: Accumulated depreciation	<u>(3,628,247)</u>	<u>(3,518,326)</u>
Total noncurrent assets	<u>4,388,968</u>	<u>4,320,320</u>
Total assets	<u>6,132,724</u>	<u>6,158,270</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	4,431	39,601
Accrued liabilities	24,463	22,748
Customer deposits	10,050	9,837
Interest payable	11,386	16,553
Current portion of noncurrent liabilities	117,552	138,704
Total current liabilities	<u>167,882</u>	<u>227,443</u>
Noncurrent liabilities:		
Leases payable	38,442	97,181
Bonds payable	986,879	1,071,185
Less current portion of noncurrent liabilities	<u>(117,552)</u>	<u>(138,704)</u>
Total noncurrent liabilities	<u>907,769</u>	<u>1,029,662</u>
Total liabilities	<u>1,075,651</u>	<u>1,257,105</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,363,647	3,151,954
Restricted for debt service	137,586	128,094
Unrestricted	<u>1,555,840</u>	<u>1,621,117</u>
Total net assets	<u>\$ 5,057,073</u>	<u>\$ 4,901,165</u>

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Water &amp; Sewer Current Year</u>	<u>Water &amp; Sewer Prior Year</u>
<b>Operating revenues:</b>		
Charges for services	\$ 840,808	\$ 759,679
Other revenues	18,618	9,013
Total operating revenues	<u>859,426</u>	<u>768,692</u>
<b>Operating expenses:</b>		
Rent	600	-
Salaries and wages	296,252	283,071
Employee benefits	149,428	120,243
Distribution system repairs and maintenance	114,777	60,259
Office expense	32,651	26,344
Insurance	9,641	10,062
Depreciation	203,709	196,590
Utilities	48,575	43,984
Professional services	3,872	2,383
Travel and training	2,787	2,470
Miscellaneous	5,174	6,154
Contract services	9,999	10,000
Total operating expenses	<u>877,465</u>	<u>761,560</u>
Operating income	<u>(18,039)</u>	<u>7,132</u>
<b>Nonoperating revenues (expenses):</b>		
Connection and impact fees	86,810	54,789
Intergovernmental Revenue	29,395	-
Interest income	78,731	37,224
Interest expense and fiscal charges	(30,333)	(41,790)
Gain on sale of assets	-	-
Total nonoperating revenues (expenses)	<u>164,603</u>	<u>50,223</u>
Income before contributions and transfers	<u>146,564</u>	<u>57,355</u>
Transfers from other funds	9,344	19,723
Transfers to other funds	-	(10,887)
Change in net assets	155,908	66,191
Total net assets, beginning of year	<u>4,901,165</u>	<u>4,834,974</u>
Total net assets, end of year	<u>\$ 5,057,073</u>	<u>\$ 4,901,165</u>

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Water &amp; Sewer Current Year</b>	<b>Water &amp; Sewer Prior Year</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers, service fees	\$ 814,348	\$ 2,065,880
Cash received from customers, other	18,618	9,013
Cash paid to suppliers	(263,246)	(137,949)
Cash paid to employees	(443,965)	(402,370)
Cash flows from operating activities	<u>125,755</u>	<u>1,534,574</u>
<b>Cash flows from noncapital financing activities:</b>		
Payments to other funds	-	-
Transfers (to) from other funds	9,344	8,836
Cash flows from noncapital financing activities	<u>9,344</u>	<u>8,836</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(143,045)	(138,316)
Interest paid	(34,613)	(40,892)
Purchase of fixed assets	(165,306)	(188,940)
Grant Proceeds	29,395	-
Connection and impact fees	86,810	54,789
Cash flows from capital and related financing activities:	<u>(226,759)</u>	<u>(313,359)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	78,731	37,224
Net change in cash and cash equivalents	<u>(12,929)</u>	<u>1,267,275</u>
Cash and cash equivalents, beginning of year	<u>1,861,108</u>	<u>593,833</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 1,848,179</u></u>	<u><u>\$ 1,861,108</u></u>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>		
Net operating income	\$ (18,039)	\$ 7,132
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation/amortization	203,709	196,590
Changes in operating assets and liabilities:		
(Increase) Decrease in receivables	(26,460)	1,306,201
(Increase) Decrease in inventory	-	-
Increase (Decrease) in accounts payable	(35,170)	23,707
Increase (Decrease) in accrued liabilities	1,715	944
Cash flows from operating activities	<u><u>\$ 125,755</u></u>	<u><u>\$ 1,534,574</u></u>
<b>Supplemental Schedule of Non-cash Financing and Investing Activities:</b>	None	None

The accompanying notes are an integral part of the financial statements.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

The financial statements of Kanab City, Utah have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is whether or not the City exercises significant influence over the potential component unit. Significant influence or accountability is based primarily on operational or financial relationships with the City. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The Recreation Capital Project Fund is used to account for the construction of recreation facilities for the City.



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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The City reports the following major proprietary fund:

The Water & Sewer Fund is used to account for the provision of water & sewer services to the residents of the City.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance

**Deposits and Investments**

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds." All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

**Inventories and prepaid items**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years
Infrastructure	20 years

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Compensated Absences**

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and comp time in the proprietary funds are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Accumulated unpaid vacation pay and comp time are accrued based upon the City's expected legal obligation as of the statement date. No provision is made for accumulated sick leave because the City is not obligated to pay accumulated sick leave upon termination or retirement.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**Use of Restricted Assets**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Reconciliation of Government-Wide and Fund Financial Statements**

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**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	\$      597,735
Compensated absences	99,231
Accrued interest payable	<u>10,051</u>
Net adjustment to reduce fund balance - total	
governmental funds to arrive at net assets -	
governmental activities	<u><u>\$      707,017</u></u>

**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital Outlay	\$      1,134,214
Depreciation Expense	<u>(389,811)</u>
Net adjustment to increase net changes in fund	
balance - total governmental funds to arrive at changes	
in net assets of governmental activities	<u><u>\$      744,403</u></u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2.      Reconciliation of Government-Wide and Fund Financial Statements, Continued**

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Another element of the reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The detail of this difference follows:

Compensated absences	(10,913)
Accrued interest	<u>(2,159)</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	  <u>\$        (13,072)</u>

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**NOTE 3.      Stewardship, Compliance, and Accountability**

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**Budgets and Budgetary Accounting**

The City Council observes the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first meeting in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are required for the General Fund, Debt Service Fund, Capital Projects funds, Permanent funds and the Enterprise Funds.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) Prior to June 22, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is authorized to transfer budgeted amounts within departments; however, to transfer budgeted amounts between departments requires City Council approval. Any revisions that alter the total expenditures of any fund must be approved through public hearing by the City Council and can be made at any time during the fiscal year.

Budgets for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds are prepared on the modified accrual method of accounting. Budgets for the Enterprise Funds are prepared on the accrual basis of accounting. Control is maintained at the function level. (i.e. Public Safety, Highways and Public Improvements, etc.) All appropriations lapse at year-end. Utah State law requires budgets to be prepared and reported on for the General Fund, Debt Service Fund, Capital Projects Funds and Permanent Funds. The General Fund budget was amended during the current fiscal year.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 3. Stewardship, Compliance, and Accountability, Continued**

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**Taxes**

Property taxes are collected by the Kane County Treasurer and remitted to the City in three installments: July, December, and March. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

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**NOTE 4. Deposits and Investments**

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Deposits and investments of the City at June 20, 2006 consist of the following

Deposits

Cash on hand	\$ 100
Cash in bank	145,152

Investments

State treasurer's investment pool	<u>4,224,360</u>
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Total deposits and investment	<u><u>\$ 4,369,611</u></u>
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A reconciliation of cash and investments as shown on the Statement of Net Assets as follows:

Cash and cash equivalents	\$ 2,887,587
Restricted cash and cash equivalents	<u>1,482,024</u>
Total cash and cash equivalents	<u><u>\$ 4,369,611</u></u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4.      Deposits and Investments, Continued**

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The City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$43,844 of the City's bank balance of \$243,844 was exposed to custodial credit risk because it was uninsured and uncollateralized

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Deposits and Investments, Continued**

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$4,224,360	\$4,224,360	\$ -	\$ -	\$ -
Total Fair Value	<u>\$4,224,360</u>	<u>\$4,224,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Deposits and Investments, Continued**

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**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State of Utah's Money Management Act.

At June 30, 2006 the City had the following investments and quality ratings

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$4,224,360	\$ -	\$ -	\$ -	\$4,224,360
Total Fair Value	<u>\$4,224,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,224,360</u>

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**NOTE 5. Assessments Receivable**

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The City created the Kanab Creek Ranchos Special Improvement District (SID) to provide for the construction of street and general drainage improvements during fiscal year 1990. During fiscal year 1992 assessments associated with the SID were levied upon the real property within the City that were benefited by the SID. The assessments will be collected by the City during the 15 years following the levy. The total levied was \$1,834,964 of which \$20,745 is receivable at June 30, 2006.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 6. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

<b>Governmental Activities:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets, not being depreciated:				
Land	\$ 170,500	\$ -	\$ -	\$ 170,500
Construction in Progress	214,296	204,651	214,296	204,651
Total capital assets, not being depreciated	384,796	204,651	214,296	375,151
Capital assets, being depreciated:				
Buildings	1,236,117	-	-	1,236,117
Improvements	2,214,078	616,456	-	2,830,534
Golf Course	845,470	216,379	-	1,061,849
Machinery & equipment	1,296,161	42,414	223,113	1,115,462
Library books	141,718	6,360	-	148,078
Automobiles and trucks	107,564	-	-	107,564
Swimming pool	14,385	-	-	14,385
Infrastructure	3,687,473	262,249	-	3,949,722
Total capital assets, being depreciated	9,542,966	1,143,858	223,113	10,463,711
Less accumulated depreciation for:				
Buildings	(278,816)	(30,903)		(309,719)
Improvements	(200,958)	(129,335)		(330,293)
Golf Course	(237,683)	(24,870)		(262,553)
Machinery & equipment	(1,105,836)	(50,357)	(223,113)	(933,080)
Library books	(123,832)	(3,095)		(126,927)
Automobiles and trucks	(14,718)	(21,446)		(36,164)
Swimming pool	(4,907)	(1,776)		(6,683)
Infrastructure	(2,832,184)	(128,029)		(2,960,213)
Total accumulated depreciation	(4,798,934)	(389,811)	(223,113)	(4,965,632)
Total capital assets, being depreciated, net	4,744,032	754,047	-	5,498,079
Governmental activities capital assets, net	\$ 5,128,828	\$ 958,698	\$ 214,296	\$ 5,873,230

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 6. Capital Assets, Continued**

Depreciation expense was charged to the functions/programs of the City as follows:

**Governmental Activities:**

General government	\$ 6,507
Public safety	51,116
Highways	246,136
Parks and recreation	65,150
Community development	20,902
Total depreciation expense - governmental activities	<u>\$ 389,811</u>

**Business Type Activities:**

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital assets not being depreciated:				
Land	\$ 162,236	\$ -	\$ -	\$ 162,236
Total capital assets, not being depreciated	<u>162,236</u>	<u>-</u>	<u>-</u>	<u>162,236</u>
Capital assets being depreciated:				
Buildings	333,500	-	-	333,500
Machinery and equipment	375,302	123,534	(70,325)	428,511
Autos and Trucks	186,628	35,476	(49,348)	172,756
Distribution system	6,459,870	121,961	-	6,581,831
Construction in Progress	89,780	-	(89,780)	-
Total capital assets, being depreciated	<u>7,445,080</u>	<u>280,971</u>	<u>(209,453)</u>	<u>7,516,598</u>
Less accumulated depreciation for:				
Buildings	(68,211)	(8,938)	-	(77,149)
Machinery and Equipment	(242,900)	(31,218)	44,439	(229,679)
Autos and Trucks	(154,691)	(12,658)	49,348	(118,001)
Distribution system	(3,052,523)	(150,895)	-	(3,203,418)
Total accumulated depreciation	<u>(3,518,325)</u>	<u>(203,709)</u>	<u>93,787</u>	<u>(3,628,247)</u>
Total capital assets, being depreciated, net	<u>3,926,755</u>	<u>77,262</u>	<u>(115,666)</u>	<u>3,888,351</u>
Business-type activities capital assets, net	<u>\$ 4,088,991</u>	<u>\$ 77,262</u>	<u>\$ (115,666)</u>	<u>\$ 4,050,587</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 7. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2006.

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 371,544	\$ 250,000	\$ 23,809	\$ 597,735	\$ 45,421
Special assessment bonds	3,760	-	3,760	-	-
Total bonds payable	375,304	250,000	27,569	597,735	45,421
Accrued Compensated Absences	88,318	22,640	11,727	99,231	-
Governmental activity					
Long-term liabilities	<u>\$ 463,622</u>	<u>\$ 272,640</u>	<u>\$ 39,296</u>	<u>\$ 696,966</u>	<u>\$ 45,421</u>
<b>Business-type activities:</b>					
Revenue bonds	<u>\$ 1,071,185</u>	<u>\$ -</u>	<u>\$ 84,306</u>	<u>\$ 986,879</u>	<u>\$ 79,110</u>
Total bonds payable	1,071,185	-	84,306	986,879	79,110
Notes payable	-	-	-	-	-
Capital leases	97,181	-	58,739	38,442	38,442
Accrued Compensated Absences	18,334	4,475	-	22,809	-
Business type activity					
Long-term liabilities	<u>\$ 1,186,700</u>	<u>\$ 4,475</u>	<u>\$ 143,045</u>	<u>\$ 1,048,130</u>	<u>\$ 117,552</u>
Total long-term liabilities	<u>\$ 1,650,322</u>	<u>\$ 277,115</u>	<u>\$ 182,341</u>	<u>\$ 1,745,096</u>	<u>\$ 162,973</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 7. Long-Term Debt, Continued**

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Bonds payable at June 30, 2006 are comprised of the following issues:

**General Obligation Bonds:**

**General Fund:**

Fire Station General Obligation Bonds, Series 1991, due in annual principal and interest installments of \$24,752, bearing interest at 5.75%, maturing January 1, 2014	\$ 156,735
Golf Course Improvement General Obligation Bonds, due in annual principal and interest installments ranging from \$12,175 to \$13,550, bearing interest at 2.5% maturing January 1, 2025.	191,000
Street Improvement General Obligation Bonds, Series 2005, due in annual principal and interest installments ranging from \$28,125 to \$29,050, bearing interest at 2.5% maturing April 1, 2016.	250,000

**Special Assessment Bonds:**

None

**Revenue Bonds:**

**Water and Sewer Fund:**

Parity and Subordinated Water Revenue Bonds, Series 1987, due in annual principal and interest installments of \$25,276, bearing interest at 5%, maturing January 1, 2007.	16,110
Water and Sewer Refunding Revenue Bonds, Series 1999, due in annual principal and interest installments ranging from \$30,360 to \$31,496, bearing interest at 7.4%, maturing June 1, 2008.	56,000
Parity Water and Sewer Revenue Bonds, Series 1992, due in annual principal and interest installments ranging from \$7,750 to \$8,650, bearing interest at 5.0%, maturing January 1, 2013.	47,000
Parity Water and Sewer Revenue Bonds, Series 1998, due in annual principal and interest installments ranging from \$21,400 to \$91,180, bearing interest at 2.0%, maturing January 1, 2019.	867,769

**Total Bonds Payable**

\$ 1,584,614

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 7. Long-Term Debt, Continued**

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Other long-term debt at June 30, 2006 is comprised of the following:

**Leases Payable:**

Lease payable in semi-annual installments of \$31,146 through May 2008, at interest from 4.4 to 5.05 percent.	38,442
Total Leases Payable	<u>38,442</u>
Accrued Vacation and Comp Time Payable:	<u>122,040</u>
Total Long-Term Debt	1,745,096
Less Current Portion:	
Business-type Activities	(117,552)
Governmental-type Activities	<u>(45,421)</u>
Net Long-Term Debt	<u><u>\$ 1,582,123</u></u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 7. Long-Term Debt, Continued**

The annual requirements to amortize bonds payable at June 30, 2006 are as follows:

Fiscal Year Ended June 30	General Obligation Bonds		Water and Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	45,421	20,381	79,110	25,377
2008	47,332	18,720	91,000	21,116
2009	49,296	16,981	63,000	17,490
2010	51,317	15,160	74,000	15,850
2011	53,398	13,254	76,000	14,120
2012	54,544	11,258	77,000	12,370
2013	56,756	9,196	80,000	10,580
2014	63,671	7,036	81,000	8,560
2015	37,000	4,425	82,000	6,920
2016	38,000	3,500	84,000	5,240
2017	11,000	2,550	86,000	3,520
2018	11,000	2,275	87,000	1,780
2019	11,000	2,000	26,769	-
2020	11,000	1,725	-	-
2021	11,000	1,450	-	-
2022	11,000	1,175	-	-
2023	12,000	900	-	-
2024	12,000	600	-	-
2025	11,000	300	-	-
Total	<u>\$ 597,735</u>	<u>\$ 132,886</u>	<u>\$ 986,879</u>	<u>\$ 142,923</u>

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 8. Capital Leases**

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The City has entered into a lease purchase agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is shown on the Water and Sewer Fund balance sheet. The Lease proceeds were used to construct a maintenance shed which is utilized by the General Fund Public Works department and the Water and Sewer Utility Fund. The building is capitalized in the Water and Sewer Utility Fund at \$301,346 with accumulated depreciation of \$58,004 at June 30, 2006. The following is a schedule of future minimum lease payments with interest rates ranging from 4.4 percent to 5.05 percent for the capital lease, together with the present value of net minimum lease payments:

Year Ending	
June 30	
2007	42,291
2008	-
Total remaining minimum lease payments	42,291
Less amount representing interest	(3,849)
Present value of net remaining minimum lease payments	<u>\$ 38,442</u>

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**NOTE 9. Interfund Transactions and Balances**

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Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursed expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2006, there were no interfund receivables and payables.



**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9. Interfund Transactions and Balances, Continued**

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Interfund transfers for the fiscal year ended June 30, 2006 are as follows:

Transfers out:	Transfers in:				
	General	Recreation Fund	Nonmajor	Water	Total
General Fund	\$ -	\$ -	\$ 11,014	\$ 9,344	\$ 20,358
Recreation Capital Project Fund	-	-	-	-	-
Nonmajor Governmental Funds	6,000	-	-	-	6,000
Water Fund	-	-	-	-	-
Total transfers out	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 11,014</u>	<u>\$ 9,344</u>	<u>\$ 26,358</u>

Transfers are used to (1) move revenues from the fund that statute or budget requirements to collect them to the fund that statute or budget requires to expand them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

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**NOTE 10. Equity Classifications**

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Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 10.     Equity Classifications, Continued**

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- c.   Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2006, the City’s reserved and designated fund balances are as follows:

**General Fund:**

**Reserved:**

Police Donation Fund	\$     1,683
Historic Homes Book Fund	1,950
Alna Wikin memorial Fund	3,416
Class C Roads	-
	<hr/>
	\$     7,049
	<hr/>

**Designated:**

Fire Department Reserve	\$     4,352
Equipment Replacement Fund	142,408
Land Requisition Fund	-
Old Library Fund	10,072
Sick Leave Reimbursement Fund	31,867
Appropriations for next years budget	231,791
	<hr/>
	\$   420,490
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**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 10. Equity Classifications, Continued**

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**Capital Projects Funds:**

Recreation/Golf Course Reserves	\$ 489,124
Nonmajor capital project funds:	
Airport Improvements	-
Impact Fees	218,104
	<u>\$ 707,228</u>

**Debt Service Fund:**

Street Improvement Bond	\$ 5,112
KCR SID Debt Service	-
	<u>\$ 5,112</u>

**Water and Sewer Fund:**

1992 Water and Sewer Bond Reserves	\$ 12,974
1997 Water and Sewer Bond Reserves	124,612
	<u>\$ 137,586</u>

**Trust Fund:**

Cemetery Perpetual Care	<u>\$ 214,315</u>
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**NOTE 11. Defined Benefit Pension Plan**

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All full-time employees of the City participate in the Utah State-Wide Local Government Retirement Systems (Systems).

**Plan Description**

Kanab City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 11. Defined Benefit Pension Plan, Continued**

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy**

In the Local Governmental Noncontributory Retirement System, Kanab City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System, Kanab City is required to contribute 19.34% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The required contributions and amounts received for the 2006 fiscal year and the two previous years are as follows:

<u>Year</u>	<u>Employee paid contributions</u>	<u>Employer paid for employee contributions</u>	<u>Employer contributions</u>	<u>Salary subject to retirement contributions</u>
Noncontributory System:				
Local Governmental Division				
2006	N/A	N/A	\$ 73,780.08	\$ 665,284.30
2005	N/A	N/A	69,384.02	625,646.87
2004	N/A	N/A	62,023.84	644,738.89
Public Safety System:				
Other Division A Noncontributory				
2006	N/A	N/A	\$ 44,116.78	\$ 228,110.92
2005	N/A	N/A	41,355.98	216,751.07
2004	N/A	N/A	34,434.13	212,031.69
Defined Contribution System:				
457 Plan				
2006	\$ -	\$ -	-	-
2005	-	-	-	-
2004	-	-	-	-
401 (k) Plan				
2006	\$ 21,049.00	\$ 5,757.74	-	-
2005	13,404.00	5,495.07	-	-
2004	13,862.00	5,779.43	-	-

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 11. Defined Benefit Pension Plan, Continued**

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Kanab City commenced participation in the Public Safety Noncontributory System July 1, 1994.

The contributions were equal to the required contributions for each year.

Kanab City participates in a 457 Deferred Compensation Plan.

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than previously as an "Agency Fund". Now all of the assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries rather than the assets of the employer. The assets are no longer assets of the employer and are not to be included in the employer financial statements.

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**NOTE 12. Risk Management**

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The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk financing activities are accounted for in various operating funds, with unallocated or City-wide activities being accounted for in the general fund.

The City maintains insurance for general liability, auto liability, and employee dishonesty through Utah Local Government's Insurance Trust and Fred A. Moreton and Company. Worker's compensation coverage is carried through the State Worker's Compensation Fund.

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**NOTE 13. Individual Fund Disclosures**

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**Segment Information**

For information on the Enterprise funds, see the Proprietary Funds financial statements in the basic financial statements.

**KANAB CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 14.     Garbage Contract**

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The City has a solid waste collection and disposal contract with Kane County Special Service District (the District). The contract provides for the collection and disposal of residential and commercial solid waste within the City. In connection with the agreement, the City is responsible for the monthly billing, collection, and payment of residential collections to the District. The fees are accounted for in the General Fund; however, only the City's portion of the net fees are reported in the financial statement.

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**NOTE 15.     Contingencies and Commitments**

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Pursuant to an agreement with Kane County dated May 10, 1982, the City is making monthly payments to the County for rent of the main City office. The term of the lease is forty years, at which point the portion of the building housing the City office becomes the property of the City. Currently, the monthly payment made by the City is \$500, but the County has the right to increase that amount at the beginning of each five year period

The City is the defendant in one lawsuit. The outcome of the lawsuit is not presently determinable. In the opinion of the City's counsel, the resolution of the matter will not have a material adverse effect on the financial condition of the City.

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**SUPPLEMENTARY INFORMATION**  
**MAJOR GOVERNMENTAL FUNDS**  
**BUDGETARY COMPARISON SCHEDULES**

**Recreation Capital Project Fund**

**Recreation Capital Project Fund** – This fund is used to account for the construction of recreation facilities for the city.

**NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES**

**Debt Service Fund**

The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

**Capital Projects Fund**

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

**Airport Improvement Capital Project Fund** – This fund is used to account for the construction and improvements to the City's airport.

**Impact Fee Fund** – This fund is used to account for the collection of impact fees and the expenditure of these fees on public facilities and infrastructure.

**Permanent Fund**

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that support the reporting government's programs.

**Perpetual Care Permanent Fund** – This fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.



**KANAB CITY, UTAH**  
**Recreation Capital Project Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget to Actual**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Taxes	\$ 99,000	\$ 97,678	\$ 100,246	\$ 2,568
Investment earnings	4,200	4,200	21,314	17,114
Total revenues	<u>103,200</u>	<u>101,878</u>	<u>121,560</u>	<u>19,682</u>
<b>Expenditures</b>				
Current:				
Parks and recreation	-	-	-	-
Capital outlay	<u>-</u>	<u>154,110</u>	<u>155,157</u>	<u>(1,047)</u>
Total expenditures	<u>-</u>	<u>154,110</u>	<u>155,157</u>	<u>(1,047)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>103,200</u>	<u>(52,232)</u>	<u>(33,597)</u>	<u>18,635</u>
Net change in fund balances	103,200	51,446	(33,597)	122,313
Fund balances, beginning of year	<u>522,721</u>	<u>522,721</u>	<u>522,721</u>	<u>-</u>
Fund balances, end of year	<u>\$ 625,921</u>	<u>\$ 574,167</u>	<u>\$ 489,124</u>	<u>\$ 122,313</u>

**KANAB CITY, UTAH**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2006**

	Debt Service	Capital Projects			Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service Fund	Airport Capital Improvement	Impact Fees	Total	Perpetual Care	
<b>Assets</b>						
Cash and cash equivalents	\$ 28,458	\$ -	\$ -	\$ -	\$ -	\$ 28,458
Receivables	20,745	-	-	-	-	20,745
Restricted cash and cash equivalents	180,202	-	218,104	218,104	214,315	612,621
Total assets	<u>\$ 229,405</u>	<u>\$ -</u>	<u>\$ 218,104</u>	<u>\$ 218,104</u>	<u>\$ 214,315</u>	<u>\$ 661,824</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	20,745	-	-	-	-	20,745
Total liabilities	<u>20,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,745</u>
<b>Fund Balances:</b>						
Reserved for:						
Debt service	5,112	-	-	-	-	5,112
Capital outlay	-	-	218,104	218,104	-	218,104
Perpetual Care	-	-	-	-	214,315	214,315
Unreserved, undesignated	203,548	-	-	-	-	203,548
Total fund balances	<u>208,660</u>	<u>-</u>	<u>218,104</u>	<u>218,104</u>	<u>214,315</u>	<u>641,079</u>
Total liabilities and fund balance	<u>\$ 229,405</u>	<u>\$ -</u>	<u>\$ 218,104</u>	<u>\$ 218,104</u>	<u>\$ 214,315</u>	<u>\$ 661,824</u>

**KANAB CITY, UTAH**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	Debt Service	Capital Projects			Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service Fund	Airport Capital Improvement	Impact Fee Fund	Total	Perpetual Care	
<b>Revenues</b>						
Taxes	\$ 24,750	\$ -	\$ -	\$ -	\$ -	\$ 24,750
Intergovernmental revenue	-	-	-	-	-	-
Charges for services	-	-	-	-	6,600	6,600
Special assessments	29,395	-	-	-	-	29,395
Impact fees	-	-	71,412	71,412	-	71,412
Contributions and donations	-	-	-	-	-	-
Investment earnings	7,026	-	6,500	6,500	7,271	20,797
Other revenues	-	-	-	-	-	-
<b>Total revenues</b>	<b>61,171</b>	<b>-</b>	<b>77,912</b>	<b>77,912</b>	<b>13,871</b>	<b>152,954</b>
<b>Expenditures</b>						
Current:						
Parks and recreation	-	-	-	-	-	-
Debt service:						
Principal	27,569	-	-	-	-	27,569
Interest	13,684	-	-	-	-	13,684
0						
Capital outlay	-	-	-	-	-	-
<b>Total expenditures</b>	<b>41,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,253</b>
Excess (deficiency) of revenues over (under) expenditures	<b>19,918</b>	<b>-</b>	<b>77,912</b>	<b>77,912</b>	<b>13,871</b>	<b>111,701</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	14	11,000	11,014	-	11,014
Transfers out	-	-	-	-	(6,000)	(6,000)
<b>Total other financing sources and uses</b>	<b>-</b>	<b>14</b>	<b>11,000</b>	<b>11,014</b>	<b>(6,000)</b>	<b>5,014</b>
<b>Net change in fund balances</b>	<b>19,918</b>	<b>14</b>	<b>88,912</b>	<b>88,926</b>	<b>7,871</b>	<b>116,715</b>
Fund balances, beginning of year	188,742	(14)	129,192	129,178	206,444	524,364
Fund balances, end of year	<u>\$ 208,660</u>	<u>\$ -</u>	<u>\$ 218,104</u>	<u>\$ 218,104</u>	<u>\$ 214,315</u>	<u>\$ 641,079</u>

**KANAB CITY, UTAH**  
**Debt Service Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Taxes	\$ 42,842	\$ 42,842	\$ 24,750	\$ (18,092)
Special assessments	60,000	55,000	29,395	(25,605)
Investment earnings	3,200	4,150	7,026	2,876
Total revenues	<u>106,042</u>	<u>101,992</u>	<u>61,171</u>	<u>(40,821)</u>
<b>Expenditures</b>				
Debt service:				
Principal	156,994	185,299	27,569	157,730
Interest	63,283	43,628	13,684	29,944
Total expenditures	<u>220,277</u>	<u>228,927</u>	<u>41,253</u>	<u>187,674</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(114,235)</u>	<u>(126,935)</u>	<u>19,918</u>	<u>146,853</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>61,377</u>	<u>74,625</u>	<u>-</u>	<u>(74,625)</u>
Total other financing sources and uses	<u>61,377</u>	<u>74,625</u>	<u>-</u>	<u>(74,625)</u>
Net change in fund balances	(52,858)	(52,310)	19,918	72,228
Fund balances, beginning of year	<u>188,742</u>	<u>188,742</u>	<u>188,742</u>	<u>-</u>
Fund balances, end of year	<u>\$ 135,884</u>	<u>\$ 136,432</u>	<u>\$ 208,660</u>	<u>\$ 72,228</u>

**KANAB CITY, UTAH**  
**Airport Improvement Capital Project Fund**  
**Schedule of Revenues, Expenses, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
<b>Other Financing Sources (Uses)</b>				
Lease proceeds	-	-	-	-
Lease payment	-	-	-	-
Transfers in	-	-	14	14
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	14	14
Net change in fund balances	-	-	14	14
Fund balances, beginning of year	(14)	(14)	(14)	-
Fund balances, end of year	<u>\$ (14)</u>	<u>\$ (14)</u>	<u>\$ -</u>	<u>\$ 14</u>

**KANAB CITY, UTAH**  
**Impact Fee Fund**  
**Schedule of Revenues, Expenses, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>Revenues</b>				
Impact fees	\$ 16,000	\$ 43,500	\$ 71,412	\$ 27,912
Investment earnings	1,000	2,000	6,500	4,500
Total revenues	17,000	45,500	77,912	32,412
<b>Expenditures</b>				
Capital outlay	12,750	12,334	-	12,334
Total expenditures	12,750	12,334	-	12,334
Excess (deficiency) of revenues over (under) expenditures	4,250	33,166	77,912	44,746
<b>Other Financing Sources (Uses)</b>				
Transfers in		14,972	11,000	(3,972)
Transfers out	(57,000)	(48,138)	-	48,138
Total other financing sources and uses	(57,000)	(33,166)	11,000	44,166
Net change in fund balances	(52,750)	-	88,912	88,912
Fund balances, beginning of year	129,192	129,192	129,192	-
Fund balances, end of year	\$ 76,442	\$ 129,192	\$ 218,104	\$ 88,912

**KANAB CITY, UTAH**  
**Perpetual Care Permanent Fund**  
**Schedule of Revenues, Expenses, and Changes in Fund Balance**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Charges for services	\$ 10,000	\$ 8,000	\$ 6,600	\$ (1,400)
Investment earnings	3,250	5,000	7,271	\$ 2,271
Total revenues	13,250	13,000	13,871	871
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	13,250	13,000	13,871	871
<b>Other Financing Sources (Uses)</b>				
Transfers out	(6,000)	(6,000)	(6,000)	-
Total other financing sources and uses	(6,000)	(6,000)	(6,000)	-
Net change in fund balances	7,250	7,000	7,871	871
Fund balances, beginning of year	206,444	206,444	206,444	-
Fund balances, end of year	<u>\$ 213,694</u>	<u>\$ 213,444</u>	<u>\$ 214,315</u>	<u>\$ 871</u>

**SUPPLEMENTARY INFORMATION**



**KANAB CITY**  
**Supplementary Information**  
**For the Year Ended June 30, 2006**

**Schedule of Impact Fees Received, Spent and Ending Balances**

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Interest</b>	<b>Expenditures</b>	<b>Explanation of Expenditures</b>	<b>Transfers &amp; Adjustments</b>	<b>Accumulated Balance</b>
<b>Public Safety Impact Fund #493212</b>						
FY 1995	\$ 32,380	\$ -	\$ -		\$ -	32,380
FY 1996	44,740	-	6,000	Cost to lease Police Station	-	71,120
FY 1997	34,480	-	6,000	Cost to lease Police Station	-	99,600
FY 1998	37,080	-	6,000	Cost to lease Police Station	-	130,680
FY 1999	7,000	-	6,000	Cost to lease Police Station	-	131,680
FY 2000	856	-	28,076	Capital outlay	-	104,460
FY 2001	709	-	6,000	Cost to lease Police Station	-	99,169
FY 2002	1,587	-	6,000	Cost to lease Police Station	-	94,756
FY 2003	789	8,540	6,000	Cost to lease Police Station	-	98,085
FY 2004		477	41,000	Capital outlay	-	57,562
FY 2005	243	1,679	7,200	Capital outlay	-	52,284
FY 2006	-	4,024	-		-	56,308
<b>Street Impact Fund</b>						
FY 1995	\$ 13,190	\$ -	\$ -		\$ -	13,190
FY 1996	18,340	-	-		-	31,530
FY 1997	14,060	-	-		-	45,590
FY 1998	16,360	-	16,210	Capital outlay	-	45,740
FY 1999	3,500	-	16,210	Capital outlay	-	33,030
FY 2000	-	-	-		-	33,030
FY 2001	-	-	-		-	33,030
FY 2002	-	-	-		-	33,030
FY 2003	-	2,977	-		-	36,007
FY 2004	-	175	-		-	36,182
FY 2005	-	1,055	-		-	37,237
FY 2006	-	3,075	-		-	40,312

**KANAB CITY**  
**Supplementary Information**  
**For the Year Ended June 30, 2006**

**Schedule of Impact Fees Received, Spent and Ending Balances, Continued**

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Interest</b>	<b>Expenditures</b>	<b>Explanation of Expenditures</b>	<b>Transfers &amp; Adjustments</b>	<b>Accumulated Balance</b>
<b>Parks Impact Fund #493216</b>						
FY 1995	\$ 8,240	\$ -	\$ -		\$ -	8,240
FY 1996	13,280	-	19,790		-	1,730
FY 1997	10,000	-	19,790		-	(8,060)
FY 1998	12,400	-	19,790		-	(15,450)
FY 1999	10,654	-	19,760		-	(24,556)
FY 2000	11,781	-	19,760		-	(32,535)
FY 2001	8,976	-	-		-	(23,559)
FY 2002	6,171	-	5,000		-	(22,388)
FY 2003	10,659	-	3,000		-	(14,729)
FY 2004	18,513	-	-		-	3,784
FY 2005	40,953	-	-		-	44,737
FY 2006	54,282	-	-		-	99,019
<b>Storm Impact Fund #493218</b>						
FY 1999	\$ 3,264	\$ -	\$ -		\$ -	3,264
FY 2000	11,826	-	-		-	15,090
FY 2001	3,857	-	5,000		-	13,947
FY 2002	8,640	-	18,500		-	4,087
FY 2003	3,212	368	18,500		-	(10,833)
FY 2004	-	(53)	4,159		-	(15,045)
FY 2005	10,416	(439)	-		-	(5,068)
FY 2006	17,130	(416)	-		-	11,646

Note 1: Kanab City is accumulating Public Safety Impact Fees to apply to a new Public Works building complex to house the Police and Fire Department.

Note 2: The City has adopted an impact fee schedule which has the entire City as the Development Area. This means that fees collected on building permits are eligible expenditures in the City as determined in the annual budget process by the Mayor and City Council. Fees are collected as determined by an Impact Fee Study conducted by the Kanab City Engineer. Fees are spent on projects approved by the Kanab City Council.

**KANAB CITY**  
**Supplementary Information**  
**June 30, 2006**

The Water and Sewer System Revenue Bond Resolutions set forth certain covenants and restrictions. The City of Kanab is in compliance with all covenants and restrictions for the Water and Sewer Bonds.

Additional disclosures required by the Resolutions are:

	<u>Water</u>	<u>Sewer</u>
a. Number of water and sewer connections within the boundaries of the City at June 30, 2006	1,823	978
b. Total water and sewer billings for fiscal year ended June 30, 2006	\$ 746,243	\$ 94,564
c. Average monthly billing per customer	\$ 34.11	\$ 8.06
d. Net water and sewer revenues were 4.96 times the aggregate water and sewer fund debt service for fiscal year ended June 30, 2006.		
e. Water rates for fiscal year ended June 30, 2006 are as follows:		
0 to 10,000 gallons	\$ 25.00	
10,001 gallons on up	\$ 1.00 per 1,000	
f. Reserve funds: See financial statement footnote 10.		

**KANAB CITY**  
**Supplementary Information**  
**June 30, 2006**

g. Insurance coverage in effect at June 30, 2006:

<u>Type</u>	<u>Policy Number</u>	<u>Expires</u>	<u>Limits</u>
Coverage with Chubb/Federal Ins. through Fred A. Moreton & Company:			
Commercial Package	35833430	07-01-07	\$ 4,722,425
Auto Physical	74969966	07-01-07	\$ 25,000
Off-Duty Vehicle	74969966	07-01-07	\$ 1,000,000
Coverage with Hartford through Fred A. Moreton & Company:			
Treasurers Bonds	34BPEBK3534	12-09-07	\$ 325,000
Fidelity Blanket Bonds	34BPEBN7393	03-01-08	\$ 630,000
Employee Dishonesty	34BPEBW7430	12-09-08	\$ 100,000
Bldg. Authority Bonds	34BPEDL0372	04-26-08	\$ 25,650
Boiler and Machinery	FBP2226704	07-01-07	\$ 50,000,000
Coverage with Old Republic through Fred A. Moreton & Company:			
Airport Liability	PR23011	12-01-07	\$ 5,000,000

**FEDERAL AND STATE REPORTS**



**HINTONBURDICK**  
**HINTON BURDICK HALL & SPILKER PLLC**  
**CPAs & ADVISORS**

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and  
Members of the City Council  
Kanab, Utah

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
PHILLIP S. PEINE  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Kanab City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Kanab City, Utah basic financial statements, and have issued our report thereon dated November 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kanab City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters, which we have reported to management of Kanab City in a separate letter dated December 20, 2006.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kanab City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Kanab City in the accompanying management letter dated December 20, 2006.

This report is intended for the information of the mayor, audit committee, management, City Council, and various federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
November 21, 2006



**HINTONBURDICK**

**HINTON BURDICK HALL & SPILKER PLLC**

**CPAs & ADVISORS**

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**MICHAEL K. SPILKER**

**MARK E. TICHENOR**

**Independent Auditors' Report on  
State Legal Compliance**

The Honorable Mayor and  
Members of the City Council  
Kanab, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kanab City, Utah for the year ended June 30, 2006, and have issued our report thereon dated November 21, 2006. As part of our audit, we have audited the Kanab City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)

Liquor Law Enforcement (State Tax Commission)

Community Impact Loans (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt

Cash Management

Purchasing Requirements

Budgetary Compliance

Truth in Taxation and Property tax Limitations

Liquor Law Enforcement

Justice Courts

B & C Road Funds

Other General Compliance Issues

Uniform Building Code

Impact Fees & Other Development Fees

Asset Forfeitures

The management of the Kanab City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.



We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying schedule of findings and recommendations. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Kanab City, Utah, complied, in all material aspects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

*Hinton Burdick Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, P.L.L.C.  
November 21, 2006



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## Findings and Recommendations For the Year Ended June 30, 2006

The Honorable Mayor and  
City Council  
Kanab, Utah

Ladies & Gentlemen:

During our audit of the funds of Kanab City for the fiscal year ended June 30, 2006, we noted several improvements in the City's accounting and budgeting system and wish to commend the City for their achievements. We noted a few areas needing corrective action in order for the City to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

### Compliance Findings and Recommendations:

#### 04-04. Impact Fee Fund Balances

##### Finding

It appears that the Police and Street impact fees have not been expended or encumbered within the six year period as per State law.

##### Recommendation

We noted that the City monitors the impact fee fund balances and we noted that the prior year Storm Water impact fee fund deficit was eliminated during fiscal year 2006. We recommend that the City continue its efforts to maintain and review an impact fee ledger and that appropriate measures be taken to encumber the Police and Street impact fees as required by State law.

#### 05-01. General Fund Balance

##### Finding

*Utah Code* 10-6-116(4) requires that only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a maximum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund (*Utah Code* 10-6-116(2)). Due to transactions associated with the close of the Power fund in fiscal year 2005 and other factors, the City has exceeded the maximum of 18% in the general fund by \$994,190.

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### Recommendation

We recommend that the City make adjustments as necessary to the upcoming year's budget in order to reduce the excess fund balance.

#### 06-01. Debt Service Reserves – Golf Course and Street Improvement Bonds

##### Finding

The new Golf Course and Street Improvement Bonds require the establishment of debt service reserve funds in accordance with the bond agreements. We noted that there are excess reserves for the SID bond and the debt service reserve fund for the two new improvement bonds have not yet been established.

##### Recommendation

We recommend that the City transfer the excess reserves from the SID funds to establish the debt service reserve fund for the new Golf Course and Street Improvement Bonds in accordance with the bond agreements.

#### 06-02. Fidelity Bonding

##### Finding

*Utah Code 51-7-15* and Rule 4 of the Utah Money Management Council require that based on the previous year's budgeted gross revenues, the City must secure a fidelity bond of 6% of the previous year's budgeted gross revenues. 6% is equal to \$299,722. The City is insured for only \$100,000.

##### Recommendation

We recommend that the City increase the amount of its fidelity bond to the amount prescribed above, or approximately \$300,000 in order to be in compliance with this requirement.

#### **General Findings and Recommendations:**

None for fiscal year 2006.

Please respond to the above Findings and Recommendations in letter form for submission to the Utah State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, City Council and management and is not intended to be used and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,



HINTON, BURDICK, HALL, & SPILKER, P.L.L.C.  
December 20, 2006

**Mayor**  
Kim T. Lawson  
**City Manager**  
Keith L. McAllister  
**Treasurer**  
RaeLene Johnson  
**City Attorney**  
Van Mackelprang



**City Council**  
James G. Sorenson  
Carol N. Sullivan  
Terril Honey  
Steven R. Mower  
Anthony Chatterley

January 08, 2007

Office of the Utah State Auditor  
Mr. Auston G. Johnson, CPA  
211 State Capital  
Sale Lake City, Utah 84114

Dear Mr. Johnson:

The following is in response to the findings and recommendations of Kemp, Burdick, Hinton & Hall, fiscal year 2005/06 auditors for Kanab City.

**State Compliance Findings and Recommendations:**

**04-04. Impact Fee Fund Balances**

It is the understanding of Kanab City that Impact Fees may be accumulated past the six year limit if that particular need is address in the new reporting requirements. Kanab City will collect Impact Fees toward the construction of a new Public Safety building. The construction will not begin within the six year period of Impact Fees collected. The collected Street Impact fees will be expended within the 2006/07 fiscal year.

**05-01. General Fund Balance**

Kanab City is aware of the excess General Fund surplus. There are two capital projects that will require the use of the excess General Fund surplus. These projects will be completed in the 2006/07 fiscal year.

**06-01 Debt Service Reserve - Golf Course and Street Improvement Bonds**

Both the Golf Course and Street Improvement Bonds have been paid and retired.

- A Western Classic -

06-02 We have increased the Kanab City Treasurers Fidelity Bond to the required amount of 6% of the previous years gross revenues.

Sincerely,

A handwritten signature in cursive script, reading "Keith L. McAllister". The signature is written in dark ink and is positioned above the printed name and title.

Keith L. McAllister  
City Manager

**Mayor**  
Kim T. Lawson  
**City Manager**  
Keith L. McAllister  
**Treasurer**  
RaeLene Johnson  
**City Attorney**  
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Anthony Chatterley



February 28, 2007

State of Utah  
Office of the State Auditor  
Utah State Capitol Complex  
ATTN: Mr. MacRay A. Curtis  
East Office Building, Suite E310  
P.O. Box 142310  
Salt Lake City, UT 84114

Dear Mr. Curtis:

Concerning your letter of January 29, 2007, the following corrective action plan has been established. The contact person for all these corrective action plan items is Keith McAllister.

04-04 The Kanab City Administrative office is presently working on a worksheet of all impact fees collected and expended. This worksheet will also indicate those impact fees that are designated for collection over the allowed six year period and the specific project they are being collected for. This worksheet will be completed and sent to your office by 3/15/07.

05-01 Please see exhibit A. These are the projects that will be completed by 6/30/07 and will reduce the General Fund Surplus by the required \$994,190.00.

06-01 Both the Golf Course and Street Improvement Bonds have been retired.

06-02 Please see exhibit B. As you can see, a fidelity bond has been secured for the Kanab City Treasurer for the required amount.

Thank you for your patience in allowing Kanab City to correct these problems. If you have questions or comments, please feel free to contact me at your convenience.

Sincerely,

Keith L. McAllister  
City Manager

- A Western Classic -

## **Exhibit A**

### **Kanab City**

**February 28, 2007**

#### **General Fund Surplus Expenditures**

Fund Balance to Appropriate for FY 2006/07 Budget	\$206,790
Flood Detention Ponds	340,000
Golf Course	155,000
Streets Chip Seal Program	200,000
Streets - Supplies	10,000
Street lights	7,500
Administration - Auto	11,000
Sound System	5,000
Phone System	4,600
Planning Commission	15,000
Jacob Hamblin Park	8,000
Senior Citizen Center	4,000
Airport - Fuel Purchases	15,000
Seal Coat	8,000
AWOS Maint	3,500
Police Department - Jail Exp.	1,000
Building Inspector - Plan Review	<u>1,000</u>

**TOTAL**

**\$995,390**



# Exhibit B

Client#: 1248

KANABCIT

<b>ACORD™ CERTIFICATE OF LIABILITY INSURANCE</b>		DATE (MM/DD/YYYY) 03/01/07
<b>PRODUCER</b> Moreton & Company - Utah 709 East South Temple Salt Lake City, UT 84102 801 531-1234		THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.
<b>INSURED</b> City of Kanab 76 North Main #14 Kanab, UT 84741		<b>INSURERS AFFORDING COVERAGE</b> INSURER A: Cincinnati Insurance Company INSURER B: INSURER C: INSURER D: INSURER E:
		NAIC #

## COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INBR	ADD'L	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
		<b>GENERAL LIABILITY</b> <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR <input type="checkbox"/> GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC				EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$
		<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS				COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
		<b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO				AUTO ONLY - EA ACCIDENT \$ OTHER THAN EA ACC \$ AUTO ONLY: AGG \$
		<b>EXCESS/UMBRELLA LIABILITY</b> <input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> DEDUCTIBLE RETENTION \$				EACH OCCURRENCE \$ AGGREGATE \$ \$ \$ \$
		<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below				<input type="checkbox"/> WC STATU-TORY LIMITS <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A		<b>OTHER</b> Public Official Treasurer Bond	8897653	03/01/07	03/01/08	Limit \$300,000. RaeLene Johnson, Treasurer

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS

Certificate issued as proof of coverage as respects to the above mentioned Treasurer Bond.

## CERTIFICATE HOLDER

## CANCELLATION Ten Day Notice for Non-Payment of Premium

Proof of Coverage Treasurer Bond	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL <u>30</u> DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES. AUTHORIZED REPRESENTATIVE <i>Kerry Oldroyd</i>
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## **IMPORTANT**

If the certificate holder is an **ADDITIONAL INSURED**, the policy(ies) must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

If **SUBROGATION IS WAIVED**, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

## **DISCLAIMER**

The Certificate of Insurance on the reverse side of this form does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the certificate holder, nor does it affirmatively or negatively amend, extend or alter the coverage afforded by the policies listed thereon.